



Financial Statements
June 30, 2011 and 2010



**FRANKLIN GENERAL
HOSPITAL**

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Franklin General Hospital
Board of Trustees and Hospital Officials

| Name | Board of Trustees | Term Expires |
|-----------------|-------------------|--------------|
| Allan Menning | Chairperson | 2014 |
| Jan Siems | Secretary | 2012 |
| John Trewin | Treasurer | 2012 |
| Linda Kuehner | Member | 2012 |
| April Hemmes | Member | 2016 |
| Pamela Rusinack | Member | 2016 |

Administration

| | |
|------------------|---|
| Kim Price | Chief Executive Officer |
| Shelly Craighton | Chief Financial Officer |
| Chris Eckhoff | Director of Nursing/Assistant Administrator |



Independent Auditor's Report

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheets of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of June 30, 2011 and 2010, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Franklin General Hospital as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus non-operating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011, on our consideration of Franklin General Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 and the Budgetary Comparison Information on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Dubuque, Iowa
October 18, 2011

This discussion and analysis of the financial performance of Franklin General Hospital (FGH) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities, as well as the Franklin General Hospital Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and Foundation and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$28,196,910, total liabilities of \$9,954,259, and total net assets of \$18,242,651. Net assets increased \$1,760,852 or 10.7% from last fiscal year.
- The Hospital's net capital assets increased \$3,696,253 or 22.8% to \$19,939,211.
- The Hospital's outstanding debt totaled \$6,922,244. This is an increase of \$2,110,974 or 43.9% from last fiscal year.

- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total operating revenues of \$15,635,536, an increase of 5.9% from last fiscal year, and total operating expenses of \$15,371,320, an increase of 8.1% from last fiscal year. The resulting gain from operations is \$264,216, a 49.5% decrease from last fiscal year. A net non-operating gain of \$1,256,197 brings the excess of revenues over expenses to \$1,520,413, which is a 16.6% decrease from last fiscal year.

Organization Highlights

Franklin General Hospital continued to make many positive changes over this last fiscal year, including but not limited to:

- Signed contract with IFMC for Meaningful Use implementations
- Attested to Meaningful Use on the Hospital side
- Finished the second year of a 3-year building project that included:
 - New Business Office addition
 - Six new private patient rooms
 - New Med/Surg nursing station
 - Specialty clinic area
 - Remodeled clinic nursing station
 - Private hospital registration area
 - New X-ray and lab areas
- Narrowed focus on 9-key organization metrics
- Continued Lean staff training
- Implemented facility wide huddles
- Added pulmonology specialty
- Received SimMan unit for in-house training.

Condensed Financial Statements

Balance Sheets

| | June 30, 2011 | June 30, 2010 | June 30, 2009 |
|---|---------------------|---------------------|---------------------|
| Current Assets | \$ 5,643,694 | \$ 5,586,976 | \$ 6,467,593 |
| Assets Limited as to Use or Restricted | 2,574,349 | 2,536,866 | 2,543,790 |
| Capital Assets, Net | 19,939,211 | 16,242,958 | 11,040,644 |
| Other Assets | <u>39,656</u> | <u>41,552</u> | <u>90,838</u> |
| Total assets | <u>\$28,196,910</u> | <u>\$24,408,352</u> | <u>\$20,142,865</u> |
| Current Liabilities | \$ 3,112,651 | \$ 3,096,051 | \$ 2,882,077 |
| Other Liabilities | 18,739 | 19,232 | 23,468 |
| Long-Term Debt | <u>6,822,869</u> | <u>4,811,270</u> | <u>2,558,133</u> |
| Total liabilities | <u>9,954,259</u> | <u>7,926,553</u> | <u>5,463,678</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 13,016,967 | 11,431,688 | 8,482,511 |
| Unrestricted | <u>5,225,684</u> | <u>5,050,111</u> | <u>6,196,676</u> |
| Total net assets | <u>18,242,651</u> | <u>16,481,799</u> | <u>14,679,187</u> |
| Total liabilities and net assets | <u>\$28,196,910</u> | <u>\$24,408,352</u> | <u>\$20,142,865</u> |

Condensed Financial Statements

Statements of Revenues, Expenses, and Changes in Net Assets

| | Year Ended June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2009 |
| Operating Revenues | | | |
| Net patient and resident service revenue (net of provision for bad debts) | \$15,439,498 | \$14,556,584 | \$14,391,393 |
| Other operating revenues | 196,038 | 212,028 | 179,024 |
| Total Operating Revenues | 15,635,536 | 14,768,612 | 14,570,417 |
| Operating Expenses | | | |
| Salaries, wages, and employee benefits | 7,463,047 | 7,025,154 | 7,049,878 |
| Supplies and other expenses | 6,379,272 | 6,060,008 | 6,209,923 |
| Depreciation and interest | 1,529,001 | 1,137,637 | 1,058,347 |
| Total Operating Expenses | 15,371,320 | 14,222,799 | 14,318,148 |
| Operating Income | 264,216 | 545,813 | 252,269 |
| Nonoperating Revenues (Expenses) | | | |
| Tax revenue | 1,081,918 | 1,086,738 | 932,797 |
| Noncapital grants and contributions | 15,841 | 36,065 | 18,443 |
| Investment income | 75,261 | 73,996 | 129,637 |
| Gain (loss) on sale of capital assets | 6,647 | 12,180 | (34,961) |
| Other | 76,530 | 91,163 | 87,605 |
| Net Nonoperating Revenues | 1,256,197 | 1,300,142 | 1,133,521 |
| Revenue in Excess of Expense | 1,520,413 | 1,823,049 | 1,385,790 |
| Capital Grants and Contributions | 272,328 | 3,085 | 92,083 |
| Transfer to Franklin General Hospital Foundation | (31,889) | (23,522) | (25,211) |
| Increase in Net Assets | 1,760,852 | 1,802,612 | 1,452,662 |
| Net Assets Beginning of Year | 16,481,799 | 14,679,187 | 13,226,525 |
| Net Assets End of Year | \$18,242,651 | \$16,481,799 | \$14,679,187 |

Capital Assets

New construction and remodeling continued throughout the facility as we finished the second year of our three-year building project. At June 30, 2011, the Hospital had \$19,939,211 in net capital assets. This is an increase of \$3,696,253 or 22.8% from last fiscal year, and is mostly due to the building project, which included:

- New Business Office and Administration addition
- Six new private patient rooms
- New Med/Surg nursing station
- Specialty clinic area
- Remodeled clinic nursing station
- Private hospital registration area
- New Radiology and Laboratory areas

Long-Term Debt

FGH continues to pay for the building project through a combination of cash flow and the construction note with the local banks. At June 30, 2011, the Hospital's had \$6,922,244 in outstanding debt. This is an increase of \$2,110,974 or 43.9% from last fiscal year, and is due to the building project.

Summary

Franklin General Hospital continues to be extremely proud of the excellent patient care, dedication, commitment, and support each of our 180 employees and Medical Staff provides to every person they serve.

The goal at FGH continues to be to exceed our customers' expectations with regard to satisfaction, safety, and quality of care. FGH will continue to narrow its focus to monitor these fundamental measures to ensure there is continued growth for the communities of Franklin County.

Requests for Financial Information

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional information, please contact Kim Price, CEO, or Shelly Craighton, CFO, at:

Franklin General Hospital
1720 Central Avenue East
Hampton, IA 50441-1859
Phone: (641) 456-5000

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents - Note 4 | \$ 2,413,355 | \$ 2,393,655 |
| Receivables | | |
| Patient and resident, net of estimated uncollectibles of \$1,175,000 in 2011 and \$1,159,000 in 2010 | 1,689,923 | 1,707,179 |
| Succeeding year property tax | 1,175,887 | 1,081,252 |
| Other | 63,020 | 100,679 |
| Supplies | 166,457 | 181,501 |
| Prepaid expenses | 135,052 | 122,710 |
| Total current assets | <u>5,643,694</u> | <u>5,586,976</u> |
| Assets Limited as to Use or Restricted - Note 4 | | |
| Restricted under resident trust agreement | 1,239 | 1,732 |
| Internally designated for capital acquisition | 2,573,110 | 2,535,134 |
| Total assets limited as to use or restricted | <u>2,574,349</u> | <u>2,536,866</u> |
| Capital Assets - Note 6 | | |
| Capital assets not being depreciated | 4,400,761 | 7,814,743 |
| Depreciable capital assets, net of accumulated depreciation | 15,538,450 | 8,428,215 |
| Total capital assets, net | <u>19,939,211</u> | <u>16,242,958</u> |
| Other Assets - Note 7 | | |
| Investment in joint venture | 39,656 | 16,415 |
| Physician advances | - | 25,137 |
| Total other assets | <u>39,656</u> | <u>41,552</u> |
| Total assets | <u>\$ 28,196,910</u> | <u>\$ 24,408,352</u> |

See Notes to Financial Statements

Franklin General Hospital
Balance Sheets
June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt - Note 8 | \$ 99,375 | \$ - |
| Accounts payable | | |
| Trade | 145,580 | 182,046 |
| Construction | 724,664 | 844,896 |
| Estimated third-party payor settlements | 4,000 | 71,000 |
| Affiliated organization - Note 11 | 138,729 | 127,552 |
| Accrued expenses | | |
| Salaries and wages | 189,035 | 175,970 |
| Vacation | 475,906 | 498,128 |
| Payroll taxes and other | 137,388 | 100,903 |
| Interest | 22,087 | 14,304 |
| Deferred revenue for succeeding year property tax receivable | <u>1,175,887</u> | <u>1,081,252</u> |
| Total current liabilities | <u>3,112,651</u> | <u>3,096,051</u> |
| Other Liabilities | | |
| Lease deposit | 17,500 | 17,500 |
| Residents' cash fund | <u>1,239</u> | <u>1,732</u> |
| Total other liabilities | <u>18,739</u> | <u>19,232</u> |
| Long-Term Debt, Less Current Maturities - Note 8 | <u>6,822,869</u> | <u>4,811,270</u> |
| Total liabilities | <u>9,954,259</u> | <u>7,926,553</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 13,016,967 | 11,431,688 |
| Unrestricted | <u>5,225,684</u> | <u>5,050,111</u> |
| Total net assets | <u>18,242,651</u> | <u>16,481,799</u> |
| Total liabilities and net assets | <u>\$ 28,196,910</u> | <u>\$ 24,408,352</u> |

Franklin General Hospital Foundation
Balance Sheets - Foundation
June 30, 2011 and 2010

| | 2011 | 2010 |
|---|------------|------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 60,934 | \$ 69,425 |
| Certificates of deposit | 195,143 | 200,000 |
| Investment in mutual funds | 336,150 | 272,409 |
| Promises to give, net - Note 5 | 89,595 | 59,597 |
| Interest receivable | 270 | 634 |
| Total current assets | 682,092 | 602,065 |
| Assets Limited as to Use or Restricted | | |
| Beneficial interest in net assets of Community Foundation | 202,674 | 175,235 |
| Other Assets | | |
| Promises to give, less current portion - Note 5 | 106,275 | 29,129 |
| Total assets | \$ 991,041 | \$ 806,429 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Annuity obligation | \$ 21,425 | \$ 24,209 |
| Other liabilities | 20 | 29,067 |
| Total current liabilities | 21,445 | 53,276 |
| Net Assets | | |
| Unrestricted | 505,177 | 399,608 |
| Temporarily restricted | 261,745 | 178,310 |
| Permanently restricted | 202,674 | 175,235 |
| Total net assets | 969,596 | 753,153 |
| Total liabilities and net assets | \$ 991,041 | \$ 806,429 |

Franklin General Hospital
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| Operating Revenues | | |
| Net patient and resident service revenue (net of provision for bad debts of \$897,259 in 2011 and \$867,517 in 2010) - Notes 2 and 3 | \$ 15,439,498 | \$ 14,556,584 |
| Other operating revenues | 196,038 | 212,028 |
| Total Operating Revenues | 15,635,536 | 14,768,612 |
| Operating Expenses | | |
| Salaries and wages | 6,009,178 | 5,670,811 |
| Employee benefits | 1,453,869 | 1,354,343 |
| Supplies and other expenses | 6,379,272 | 6,060,008 |
| Depreciation | 1,344,407 | 1,026,637 |
| Interest expense | 184,594 | 111,000 |
| Total Operating Expenses | 15,371,320 | 14,222,799 |
| Operating Income Before Affiliation Agreement | 264,216 | 545,813 |
| Affiliation Agreement Expense | - | (22,906) |
| Operating Income | 264,216 | 522,907 |
| Nonoperating Revenues | | |
| Income on investment in joint venture | 23,241 | 853 |
| Tax revenue | 1,081,918 | 1,086,738 |
| Noncapital grants and contributions | 15,841 | 36,065 |
| Investment income | 52,020 | 73,143 |
| Gain on disposal of capital assets | 6,647 | 12,180 |
| Gain from Franklin Prairie Apartments | 68,983 | 86,899 |
| Other | 7,547 | 4,264 |
| Net Nonoperating Revenues | 1,256,197 | 1,300,142 |
| Revenues in Excess of Expenses | 1,520,413 | 1,823,049 |
| Capital Grants and Contributions | 272,328 | 3,085 |
| Transfer to Franklin General Hospital Foundation | (31,889) | (23,522) |
| Increase in Net Assets | 1,760,852 | 1,802,612 |
| Net Assets, Beginning of Year | 16,481,799 | 14,679,187 |
| Net Assets, End of Year | \$ 18,242,651 | \$ 16,481,799 |

See Notes to Financial Statements

2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Revenues | | | | |
| Contributions | \$ 43,254 | \$ 320,060 | \$ - | \$ 363,314 |
| Investment income | 82,950 | - | 27,439 | 110,389 |
| Total Revenues | 126,204 | 320,060 | 27,439 | 473,703 |
| Expenses | | | | |
| Gifts to Franklin General Hospital | 14,759 | 236,625 | - | 251,384 |
| Professional fees | 4,540 | - | - | 4,540 |
| Foundation coordinator | 26,921 | - | - | 26,921 |
| Supplies and other | 2,847 | - | - | 2,847 |
| Total Expenses | 49,067 | 236,625 | - | 285,692 |
| Revenues in Excess of (Less Than) Expenses | 77,137 | 83,435 | 27,439 | 188,011 |
| Change in Value of Split- Interest Agreement | (3,457) | - | - | (3,457) |
| Transfer from Franklin General Hospital | 31,889 | - | - | 31,889 |
| Increase in Net Assets | 105,569 | 83,435 | 27,439 | 216,443 |
| Net Assets, Beginning of Year | 399,608 | 178,310 | 175,235 | 753,153 |
| Net Assets, End of Year | \$ 505,177 | \$ 261,745 | \$ 202,674 | \$ 969,596 |

See Notes to Financial Statements

Franklin General Hospital Foundation
 Statements of Activities and Changes in Net Assets - Foundation
 Years Ended June 30, 2011 and 2010

| 2010 | | | |
|--------------|---------------------------|---------------------------|------------|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| \$ 32,568 | \$ 124,360 | \$ - | \$ 156,928 |
| 38,096 | - | 7,419 | 45,515 |
| 70,664 | 124,360 | 7,419 | 202,443 |
| 2,014 | 34,051 | - | 36,065 |
| 51,510 | - | - | 51,510 |
| 18,925 | - | - | 18,925 |
| 8,681 | - | - | 8,681 |
| 81,130 | 34,051 | - | 115,181 |
| (10,466) | 90,309 | 7,419 | 87,262 |
| (4,537) | - | - | (4,537) |
| 23,522 | - | - | 23,522 |
| 8,519 | 90,309 | 7,419 | 106,247 |
| 391,089 | 88,001 | 167,816 | 646,906 |
| \$ 399,608 | \$ 178,310 | \$ 175,235 | \$ 753,153 |

Franklin General Hospital
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Receipts of patient and resident service revenue | \$ 15,389,754 | \$ 14,534,741 |
| Payments of salaries and wages | (6,018,335) | (5,673,870) |
| Payments of supplies and other expenses | (7,819,243) | (7,651,404) |
| Other receipts and payments, net | 234,173 | 237,288 |
| Net Cash Provided by Operating Activities | <u>1,786,349</u> | <u>1,446,755</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Noncapital grants and contributions | 15,841 | 36,065 |
| Tax revenue | 1,081,442 | 1,089,009 |
| Transfer to Franklin General Hospital Foundation | (31,889) | (23,522) |
| Net income from Franklin Prairie Apartments, excluding depreciation expense | 195,728 | 213,644 |
| Other nonoperating revenue | 7,547 | 4,264 |
| Net Cash Provided by Noncapital Financing Activities | <u>1,268,669</u> | <u>1,319,460</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition of capital assets | (5,167,405) | (6,355,695) |
| Proceeds from sale of capital assets | 6,647 | 12,180 |
| Capital grants and contributions | 272,328 | 3,085 |
| Proceeds from issuance of long-term debt | 2,110,974 | 2,253,137 |
| Interest payments on long-term debt | (176,811) | (96,696) |
| Increase (decrease) in construction payable | (120,232) | 526,487 |
| Net Cash used for Capital and Related Financing Activities | <u>(3,074,499)</u> | <u>(3,657,502)</u> |
| Cash Flows from Investing Activities | | |
| Decrease in physician advances | 25,137 | 25,138 |
| Purchase of investments | (2,537,976) | (2,747,312) |
| Sales and maturities of investments | 2,500,000 | 2,750,000 |
| Distribution from joint venture | - | 25,000 |
| Interest earned on investments | 52,020 | 73,143 |
| Net Cash Provided by Investing Activities | <u>39,181</u> | <u>125,969</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 19,700 | (765,318) |
| Cash and Cash Equivalents at Beginning of Year | <u>2,393,655</u> | <u>3,158,973</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,413,355</u> | <u>\$ 2,393,655</u> |

Franklin General Hospital
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|--------------|--------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 264,216 | \$ 522,907 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 1,344,407 | 1,026,637 |
| Interest expense considered capital and related financing activity | 184,594 | 111,000 |
| Provision for bad debts | 897,259 | 867,517 |
| Changes to assets and liabilities | | |
| Receivables | (841,868) | (700,100) |
| Estimated third-party payor settlements | (67,000) | (164,000) |
| Supplies | 15,044 | (52,718) |
| Prepaid expense | (12,342) | (8,974) |
| Accounts payable | (25,289) | (110,090) |
| Accrued expenses | 27,328 | (45,424) |
| Net Cash Provided by Operating Activities | \$ 1,786,349 | \$ 1,446,755 |

Supplemental Disclosure of Cash Flow Information

Cash paid for interest (net of amount capitalized) in 2011 and 2010 was \$225,608 and \$124,356, respectively.

Franklin General Hospital Foundation
 Statements of Cash Flows - Foundation
 Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|------------|------------|
| Cash Flows from Operating Activities | | |
| Increase in net assets | \$ 216,443 | \$ 106,247 |
| Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities | | |
| Change in unrealized gains and losses on investments | (91,180) | (26,484) |
| Changes in assets and liabilities | | |
| Promises to give | (107,144) | (88,726) |
| Interest receivable | 364 | (127) |
| Annuity obligation | (2,784) | (1,314) |
| Other liabilities | (29,047) | 29,030 |
| | (13,348) | 18,626 |
| Net Cash Provided by (used for) Operating Activities | | |
| Cash Flows from Investing Activities | | |
| Purchase of investments - mutual funds | - | (36,052) |
| Maturities of certificates of deposit | 200,000 | 230,737 |
| Purchases of certificates of deposit | (195,143) | (200,000) |
| | 4,857 | (5,315) |
| Net Cash Provided by (used for) Investing Activities | | |
| Net Increase (Decrease) in Cash and Cash Equivalents | (8,491) | 13,311 |
| Cash and Cash Equivalents at Beginning of Year | 69,425 | 56,114 |
| Cash and Cash Equivalents at End of Year | \$ 60,934 | \$ 69,425 |

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Franklin General Hospital (Hospital) is the county hospital of Franklin County, Iowa, and is organized under Chapter 347 of the Code of Iowa. The Hospital provides services primarily to residents of Franklin County and surrounding counties in north central Iowa. The Hospital operates clinics in Hampton, Dows, Latimer, and Dumont. The Hospital also owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company.

Tax Exempt Status

The Hospital is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital.

Franklin General Hospital Foundation (Foundation) is a legally separate, tax-exempt component unit of the Hospital. It is organized under the provisions of the Internal Revenue Service Code Section 501(c)(3). The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its operations and programs. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Hospital.

Basis of Presentation

The balance sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes which represent unpaid taxes for the current and prior years are recorded in other receivables. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets restricted under resident trust agreement and assets which have been internally designated by the Hospital's Board of Trustees. Board designated assets remain under the control of the Board of Trustees which may, at its discretion, later use for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating revenue to the extent expended within the period.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

| | |
|----------------------------|------------|
| Land improvements | 5-20 years |
| Buildings and improvements | 5-40 years |
| Equipment | 3-20 years |

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the balance sheet based on rates of pay that are in effect at June 30, 2011 and 2010.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including interest income, taxes, grants, and contributions, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$28,355 and \$27,482 for advertising costs for the years ended June 30, 2011 and 2010, respectively.

Accounting for Conditional Asset Retirement Obligations

Management has considered FASB Accounting Standards Codification Topic ASC 410-20 *Asset Retirement Obligations*, specifically as it relates to its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the next few years, management will have systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Hospital may settle the obligation is unknown. Management also believes the estimated liability related to any potential asset retirement activities is immaterial at June 30, 2011 and 2010.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

County Tax Revenues

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Subsequent Events

The Hospital has evaluated subsequent events through October 18, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

Note 2 - Charity Care and Community Benefits

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$54,062 and \$51,839 for the years ended June 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2011 and 2010, were \$36,000 and \$33,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Note 3 - Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2009.

Medicaid

Hospital

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2008.

Nursing Home

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

Other Payors

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 19%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2011, and 50% and 7%, respectively, of the Hospital's net patient and resident service revenue for the year ended June 30, 2010.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

A summary of patient and resident service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|--|---------------|---------------|
| Total Patient and Resident Service Revenue | \$ 22,938,948 | \$ 21,638,976 |
| Contractual Adjustments | | |
| Medicare | (4,728,200) | (4,343,126) |
| Medicaid | (606,841) | (744,478) |
| Blue Cross | (994,707) | (845,342) |
| Other | (272,443) | (281,929) |
| Total contractual adjustments | (6,602,191) | (6,214,875) |
| Net Patient and Resident Service Revenue | 16,336,757 | 15,424,101 |
| Provision for Bad Debts | (897,259) | (867,517) |
| Net Patient and Resident Service Revenue (Net of Provision for Bad Debts) | \$ 15,439,498 | \$ 14,556,584 |

Note 4 - Cash and Deposits

The Hospital's deposits in banks at June 30, 2011 and 2010, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2011 and 2010, the Hospital's carrying amounts of cash and deposits are as follows:

| | 2011 | 2010 |
|-------------------------------|--------------|--------------|
| Checking and Savings Accounts | \$ 2,483,277 | \$ 2,424,614 |
| Certificates of Deposit | 2,504,427 | 2,505,907 |
| Total deposits | \$ 4,987,704 | \$ 4,930,521 |

Included in the following balance sheet captions:

| | | |
|--|--------------|--------------|
| Cash and Cash Equivalents | \$ 2,413,355 | \$ 2,393,655 |
| Assets Limited as to Use or Restricted | 2,574,349 | 2,536,866 |
| | \$ 4,987,704 | \$ 4,930,521 |

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

Note 5 - Unconditional Promises to Give

Unconditional promises to give are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 4.625%. Amortization of the discounts is included in contribution revenue. Promises to give are due as follows:

Franklin General Hospital
Notes to Financial Statements
June 30, 2011 and 2010

| | 2011 | 2010 |
|---|------------|-----------|
| Less Than One Year | \$ 89,595 | \$ 59,597 |
| One to Five Years | 136,913 | 35,365 |
| | 226,508 | 94,962 |
| Less Unamortized Discount | (19,312) | (4,748) |
| Less Allowance for Uncollectible Promises to Give | (11,326) | (1,488) |
| Promises to Give, Net | \$ 195,870 | \$ 88,726 |

Note 6 - Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

| | June 30, 2010 Balance | Additions | Deductions | Transfers | June 30, 2011 Balance |
|---|--------------------------|--------------|------------|-------------|--------------------------|
| Capital Assets Not Being Depreciated | | | | | |
| Land | \$ 213,670 | \$ - | \$ - | \$ - | \$ 213,670 |
| Construction in progress | 7,601,073 | 4,748,146 | - | (8,162,128) | 4,187,091 |
| Total capital assets not being depreciated | 7,814,743 | 4,748,146 | - | (8,162,128) | 4,400,761 |
| Capital Assets Being Depreciated | | | | | |
| Land improvements | 348,812 | - | - | 553,081 | 901,893 |
| Building | 8,670,164 | - | - | 2,939,594 | 11,609,758 |
| Fixed equipment | 5,646,919 | - | - | 4,408,943 | 10,055,862 |
| Major movable equipment | 3,553,880 | 419,259 | 342,878 | 260,510 | 3,890,771 |
| Total capital assets being depreciated | 18,219,775 | 419,259 | 342,878 | 8,162,128 | 26,458,284 |
| Less Accumulated Depreciation for: | | | | | |
| Land improvements | 222,968 | 51,570 | - | - | 274,538 |
| Building | 4,587,127 | 486,441 | - | - | 5,073,568 |
| Fixed equipment | 2,506,372 | 445,484 | - | - | 2,951,856 |
| Major movable equipment | 2,475,093 | 487,657 | 342,878 | - | 2,619,872 |
| Total accumulated depreciation | 9,791,560 | 1,471,152 | 342,878 | - | 10,919,834 |
| Total Capital Assets Being Depreciated, Net | 8,428,215 | (1,051,893) | - | 8,162,128 | 15,538,450 |
| Capital Assets, Net | \$ 16,242,958 | \$ 3,696,253 | \$ - | \$ - | \$ 19,939,211 |

Franklin General Hospital
Notes to Financial Statements
June 30, 2011 and 2010

The majority of construction in progress at June 30, 2011, represents costs incurred for the master facility plan. The total estimated cost of the master facility plan is \$15,000,000, which will be funded through debt financing, equity contributions, and a capital campaign. The project will be completed in various phases with final completion scheduled for 2012.

| | June 30, 2009 | | | | June 30, 2010 |
|---|----------------------|---------------------|----------------|-----------------|----------------------|
| | Balance | Additions | Deductions | Transfers | Balance |
| Capital Assets Not Being Depreciated | | | | | |
| Land | \$ 213,670 | \$ - | \$ - | \$ - | \$ 213,670 |
| Construction in progress | 1,515,305 | 6,121,291 | - | (35,523) | 7,601,073 |
| Total capital assets not being depreciated | <u>1,728,975</u> | <u>6,121,291</u> | <u>-</u> | <u>(35,523)</u> | <u>7,814,743</u> |
| Capital Assets Being Depreciated | | | | | |
| Land improvements | 348,812 | - | - | - | 348,812 |
| Buildings | 8,670,164 | - | - | - | 8,670,164 |
| Fixed equipment | 5,642,724 | 91,345 | 87,150 | - | 5,646,919 |
| Major movable equipment | 3,472,139 | 143,059 | 96,841 | 35,523 | 3,553,880 |
| Total capital assets being depreciated | <u>18,133,839</u> | <u>234,404</u> | <u>183,991</u> | <u>35,523</u> | <u>18,219,775</u> |
| Less Accumulated Depreciation for: | | | | | |
| Land improvements | 198,833 | 24,135 | - | - | 222,968 |
| Building | 4,188,017 | 399,110 | - | - | 4,587,127 |
| Fixed equipment | 2,313,147 | 280,375 | 87,150 | - | 2,506,372 |
| Major movable equipment | 2,122,173 | 449,761 | 96,841 | - | 2,475,093 |
| Total accumulated depreciation | <u>8,822,170</u> | <u>1,153,381</u> | <u>183,991</u> | <u>-</u> | <u>9,791,560</u> |
| Total Capital Assets Being Depreciated, Net | <u>9,311,669</u> | <u>(918,977)</u> | <u>-</u> | <u>35,523</u> | <u>8,428,215</u> |
| Total Capital Assets, Net | <u>\$ 11,040,644</u> | <u>\$ 5,202,314</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,242,958</u> |

Note 7 - Other Assets

Investment in Joint Venture

The joint venture represents a 25% investment in Mobile Radiology, LC, a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$23,241 and \$853 in 2011 and 2010, respectively. The Hospital did not receive an equity distribution during the year ended June 30, 2011. During the year ended June 30, 2010, the Hospital received equity distributions of \$25,000. On June 30, 2011, Mobile Radiology, LC ceased operations. A preliminary distribution of \$30,000 was made to each owner with final distributions to be determined after all assets are sold and all liabilities are satisfied. The financial statements of the joint venture are available upon request from Mobile Radiology, LC.

Physician Advances

Other assets also consist of advances to physicians relating to education loans. If the physician leaves before the entire loan is forgiven, the physician will have to repay the remaining balance. These advances are being amortized over a period of four years and were fully amortized as of June 30, 2011.

Note 8 - Long-Term Debt

A schedule of changes in long-term debt for the years ended June 30, 2011 and 2010, is as follows:

| | <u>Balance</u> <u>June 30, 2010</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2011</u> | <u>Amounts Due</u> <u>Within One Year</u> |
|---|--|---------------------|-------------------|--|--|
| Promissory Note, Bank | \$ 3,711,270 | \$ 2,110,974 | \$ - | \$ 5,822,244 | \$ - |
| Promissory Note, Corn Belt Power | 360,000 | - | - | 360,000 | 30,000 |
| Promissory Note, Franklin Rural Electric | <u>740,000</u> | <u>-</u> | <u>-</u> | <u>740,000</u> | <u>69,375</u> |
| Total Long-Term Debt | <u>\$ 4,811,270</u> | <u>\$ 2,110,974</u> | <u>\$ -</u> | 6,922,244 | <u>\$ 99,375</u> |
| Less current maturities | | | | <u>(99,375)</u> | |
| Long-Term Debt, Less Current Maturities | | | | <u>\$ 6,822,869</u> | |

Franklin General Hospital
Notes to Financial Statements
June 30, 2011 and 2010

| | <u>Balance</u> <u>June 30, 2009</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2010</u> | <u>Amounts Due</u> <u>Within One Year</u> |
|--|--|---------------------|-------------------|--|--|
| Promissory Note, Bank Promissory Note, Corn Belt Power | \$ 2,558,133 | \$ 1,153,137 | \$ - | \$ 3,711,270 | \$ - |
| Promissory Note, Franklin Rural Electric | - | 360,000 | - | 360,000 | - |
| | <u>-</u> | <u>740,000</u> | <u>-</u> | <u>740,000</u> | <u>-</u> |
| Total Long-Term Debt | <u>\$ 2,558,133</u> | <u>\$ 2,253,137</u> | <u>\$ -</u> | 4,811,270 | <u>\$ -</u> |
| Less Current Maturities | | | | <u>-</u> | |
| Long-Term Debt, Less Current Maturities | | | | <u>\$ 4,811,270</u> | |

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2012 | \$ 99,375 | \$ 269,279 | \$ 368,654 |
| 2013 | 347,935 | 243,570 | 591,505 |
| 2014 | 378,294 | 257,484 | 635,778 |
| 2015 | 389,669 | 243,109 | 632,778 |
| 2016 | 401,583 | 231,195 | 632,778 |
| 2017-2021 | 1,970,393 | 956,621 | 2,927,014 |
| 2022-2026 | 1,914,322 | 562,068 | 2,476,390 |
| 2027-2031 | <u>1,420,673</u> | <u>106,434</u> | <u>1,527,107</u> |
| | <u>\$ 6,922,244</u> | <u>\$ 2,869,760</u> | <u>\$ 9,792,004</u> |

A summary of interest cost on borrowed funds during the years ended June 30, 2011 and 2010, is as follows:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Interest Cost: | | |
| Capitalized as part of construction project | \$ 48,797 | \$ 27,660 |
| Recognized as interest expense | <u>184,594</u> | <u>111,000</u> |
| Total | <u>\$ 233,391</u> | <u>\$ 138,660</u> |

Promissory Note, UBT

The Hospital issued a 4.625% promissory note payable in the amount of \$2,558,133 to United Bank and Trust (UBT) Company on June 30, 2009, to pay down existing debt and help fund the master facility plan. The Hospital may draw up to \$11,000,000 through June 30, 2012. Interest became payable on August 1, 2009 and is due monthly thereafter on the first day of each month until the note is repaid in full. Principal payments shall be payable beginning on August 1, 2012, and monthly thereafter on the first day of each month through July 1, 2029.

The interest rate shall reset every five years, beginning July 1, 2014, to an interest rate equal to the thirty-day average of the five-year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.40%. At each reset date, the change in interest rate shall be subject to a 150-basis point cap per reset date and a floor of 4.125%. If on any reset date, the five-year Federal Home Loan Bank Des Moines fixed rate advance rate is not available, the interest shall equal the average adjusted constant maturity rate of the five-year U.S. Treasury notes as published weekly in the *Wall Street Journal* for the four weeks preceding the reset date, plus 2.15%.

Promissory Note, Corn Belt Power

The Hospital issued a non-interest bearing promissory note in the amount of \$360,000 to the Corn Belt Power Cooperative on October 29, 2009, to help fund the master facility plan. Principal payments of \$3,750 commence November 1, 2011 and continue monthly thereafter on the first day of each month through October 1, 2019. \$300,000 of these funds were borrowed through the federal program Rural Economic Development Loans and Grants.

Promissory Note, Franklin Rural Electric

The Hospital issued a non-interest bearing promissory note in the amount of \$740,000 to the Franklin Rural Electric Cooperative on October 29, 2009, to help fund the master facility plan. Principal payments of \$7,708 commence October 31, 2011, and continue monthly thereafter on the last day of each month through September 30, 2019. The promissory note was borrowed through the federal program Rural Economic Development Loans and Grants.

Note 9 - Leases

The Hospital leases certain equipment under non-cancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for all operating leases for the years ended June 30, 2011 and 2010, was \$224,716 and \$247,639, respectively.

Minimum future lease payments for the non-cancellable operating leases are as follows:

| Year Ending June 30, | Total |
|----------------------|------------|
| 2012 | \$ 190,800 |
| 2013 | 190,800 |
| 2014 | 163,800 |
| 2015 | 154,800 |
| 2016 | 154,800 |
| 2017 | 38,700 |
| | \$ 893,700 |

Note 10 - Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary, and the Hospital is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$463,024, \$434,494, and \$378,940, respectively, equal to the required contributions for each year.

Note 11 - Related Party Transactions

Master Affiliation Agreement

Franklin General Hospital operates under a Master Affiliation Agreement with Mercy Medical Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Franklin County and the north central Iowa region. As a part of the Master Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services. Amounts paid to MMC-NI for the provision of these services amounted to \$1,624,995 and \$1,559,184 for the years ended June 30, 2011 and 2010, respectively.

Per the Hospital's Master Affiliation Agreement with MMC-NI, operating gains and losses that are less than \$500,000 are allocated entirely to the Hospital. Operating gains and losses in excess of \$500,000 are shared equally between the Hospital and MMC-NI. There were no operating gains to be allocated to MMC-NI for the year ended June 30, 2011. Total operating gains to be allocated to MMC-NI amounted to \$45,813 for the year ended June 30, 2010.

Management Services Agreement

The Hospital has a contractual arrangement with MMC-NI under which MMC-NI provides an administrator, chief nursing officer, management consultation, and other services to Franklin General Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Franklin General Hospital. Expenses for management and other services received were \$488,977 and \$417,856 for the years ended June 30, 2011 and 2010, respectively.

Due to Affiliated Organization

As of June 30, 2011 and 2010, the Hospital's records reflect a due to MMC-NI of \$138,729 and \$127,552, respectively, for the various services provided.

Franklin Prairie Apartments

The Hospital owns an assisted living facility, Franklin Prairie Apartments, that it leases to a management company. The lease calls for monthly rent payments of \$18,583 through September 2011. Future minimum rent payments to be received are as follows:

| Year Ending June 30, | Total |
|----------------------|-----------|
| 2012 | \$ 55,749 |

The Hospital renewed its lease agreement with Franklin Prairie Apartments in September 2011, with monthly rent payments of \$17,000 through October 2016.

Note 12 - Contingencies

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Excess Liability Umbrella Insurance

The Hospital also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$1 million per occurrence and an annual aggregate limit of \$1 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient and resident services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient and resident services previously billed.

Note 13 - Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 14 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|---|------|------|
| Medicare | 30% | 31% |
| Medicaid | 7% | 7% |
| Commercial Insurance | 25% | 23% |
| Other Third-Party Payors, Patients, and Residents | 38% | 39% |
| | 100% | 100% |



Required Supplementary Information
June 30, 2011

Franklin General Hospital

Franklin General Hospital
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets –
 Budget and Actual (Cash Basis)
 Required Supplementary Information
 Year Ended June 30, 2011

| | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | Budget | Variance Favorable (Unfavorable) |
|--|----------------------------|------------------------|----------------------|---------------------|--|
| Estimated Amount to be Raised by Taxation | \$ 1,081,918 | \$ (476) | \$ 1,081,442 | \$ 1,053,130 | \$ 28,312 |
| Estimated Other Revenues/ Receipts | <u>16,082,143</u> | <u>2,228,006</u> | <u>18,310,149</u> | <u>18,492,652</u> | <u>(182,503)</u> |
| | 17,164,061 | 2,227,530 | 19,391,591 | 19,545,782 | (154,191) |
| Expenses/Disbursements | <u>15,403,209</u> | <u>3,931,199</u> | <u>19,334,408</u> | <u>19,397,753</u> | <u>63,345</u> |
| Net | 1,760,852 | (1,703,669) | 57,183 | 148,029 | <u>\$ (90,846)</u> |
| Balance, Beginning of Year | <u>16,481,799</u> | <u>(11,551,278)</u> | <u>4,930,521</u> | <u>9,521,913</u> | |
| Balance, End of Year | <u>\$ 18,242,651</u> | <u>\$ (13,254,947)</u> | <u>\$ 4,987,704</u> | <u>\$ 9,669,942</u> | |

Note 1 - Budgetary Comparison

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from Franklin General Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2011.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2011 and 2010

Franklin General Hospital



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, patient and resident receivables, allowance for doubtful accounts, collection statistics, supplies and prepaid expenses, insurance in force, and statistical information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, and supplies and prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient and resident receivables, allowance for doubtful accounts, collection statistics, insurance in force, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
October 18, 2011

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| | Total | |
|--|----------------------|----------------------|
| | 2011 | 2010 |
| Patient Care Services | | |
| Adults and pediatrics | \$ 983,097 | \$ 1,136,135 |
| Swing-bed | 682,326 | 433,714 |
| Nursing facility | 2,690,534 | 2,599,191 |
| Subtotal | <u>4,355,957</u> | <u>4,169,040</u> |
| Other Professional Services | | |
| Operating room | 790,073 | 779,788 |
| Anesthesiology | 415,722 | 460,006 |
| Radiology | 3,159,204 | 2,949,872 |
| Laboratory | 3,121,939 | 2,818,445 |
| Respiratory therapy | 531,268 | 706,240 |
| Physical therapy | 1,645,632 | 1,403,146 |
| Speech therapy | 40,168 | 47,777 |
| Occupational therapy | 252,970 | 243,288 |
| Wound therapy | 19,731 | 25,427 |
| Electrocardiology | 110,011 | 116,934 |
| Medical and surgical supplies | 866,974 | 1,017,970 |
| Pharmacy | 1,272,393 | 1,122,280 |
| Cardiac rehabilitation | 167,152 | 147,599 |
| Infusion therapy | 242,899 | 126,040 |
| Clinics | 4,185,198 | 3,885,501 |
| Emergency services | 994,281 | 899,357 |
| Ambulance | 821,438 | 772,105 |
| Subtotal | <u>18,637,053</u> | <u>17,521,775</u> |
| Total | 22,993,010 | 21,690,815 |
| Charity care | <u>(54,062)</u> | <u>(51,839)</u> |
| Total patient and resident service revenue | <u>22,938,948</u> | <u>21,638,976</u> |
| Contractual Adjustments | | |
| Medicare | (4,728,200) | (4,343,126) |
| Medicaid | (606,841) | (744,478) |
| Blue Cross | (994,707) | (845,342) |
| Other | (272,443) | (281,929) |
| Total contractual adjustments | <u>(6,602,191)</u> | <u>(6,214,875)</u> |
| Net Patient and Resident Service Revenue | 16,336,757 | 15,424,101 |
| Provision for Bad Debts | <u>(897,259)</u> | <u>(867,517)</u> |
| Net Patient and Resident Service Revenue (Net of Provision for Bad Debts) | <u>\$ 15,439,498</u> | <u>\$ 14,556,584</u> |

Franklin General Hospital
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2011 and 2010

| Inpatient | | Outpatient | |
|---------------------|---------------------|----------------------|----------------------|
| 2011 | 2010 | 2011 | 2010 |
| \$ 640,687 | \$ 802,787 | \$ 342,410 | \$ 333,348 |
| 682,326 | 433,714 | - | - |
| 2,690,534 | 2,599,191 | - | - |
| <u>4,013,547</u> | <u>3,835,692</u> | <u>342,410</u> | <u>333,348</u> |
| 13,714 | 4,511 | 776,359 | 775,277 |
| 8,898 | 6,552 | 406,824 | 453,454 |
| 102,557 | 166,122 | 3,056,647 | 2,783,750 |
| 279,643 | 268,227 | 2,842,296 | 2,550,218 |
| 299,908 | 445,195 | 231,360 | 261,045 |
| 295,333 | 259,322 | 1,350,299 | 1,143,824 |
| 8,404 | 14,184 | 31,764 | 33,593 |
| 135,576 | 117,139 | 117,394 | 126,149 |
| 1,409 | 3,287 | 18,322 | 22,140 |
| 5,996 | 5,167 | 104,015 | 111,767 |
| 266,351 | 343,267 | 600,623 | 674,703 |
| 494,131 | 437,635 | 778,262 | 684,645 |
| - | - | 167,152 | 147,599 |
| 7,157 | 7,135 | 235,742 | 118,905 |
| - | - | 4,185,198 | 3,885,501 |
| 12,810 | 14,316 | 981,471 | 885,041 |
| 50,096 | 28,822 | 771,342 | 743,283 |
| <u>1,981,983</u> | <u>2,120,881</u> | <u>16,655,070</u> | <u>15,400,894</u> |
| <u>\$ 5,995,530</u> | <u>\$ 5,956,573</u> | <u>\$ 16,997,480</u> | <u>\$ 15,734,242</u> |

Franklin General Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|------------------------------------|-----------------------|-----------------------|
| Other Operating Revenues | | |
| Dietary | \$ 49,081 | \$ 50,110 |
| Clinic rent | 42,576 | 46,346 |
| Grant revenue | 40,715 | 60,429 |
| Pharmacy rent | 14,214 | 14,214 |
| Medical record transcripts | 1,882 | 2,454 |
| Other | <u>47,570</u> | <u>38,475</u> |
| Total Other Operating Revenues | <u>\$ 196,038</u> | <u>\$ 212,028</u> |

Franklin General Hospital
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|------------------|------------------|
| Nursing Administration | | |
| Salaries and wages | \$ 113,628 | \$ 125,738 |
| Supplies and other expenses | 11,232 | 2,185 |
| | <u>124,860</u> | <u>127,923</u> |
| Adults and Pediatrics | | |
| Salaries and wages | 926,730 | 899,071 |
| Supplies and other expenses | 80,910 | 58,515 |
| | <u>1,007,640</u> | <u>957,586</u> |
| Nursing Facility | | |
| Salaries and wages | 1,054,009 | 997,301 |
| Supplies and other expenses | 126,843 | 102,612 |
| | <u>1,180,852</u> | <u>1,099,913</u> |
| Operating Room | | |
| Salaries and wages | 130,938 | 128,848 |
| Supplies and other expenses | 150,766 | 90,186 |
| | <u>281,704</u> | <u>219,034</u> |
| Anesthesiology | | |
| Supplies and other expenses | 139,814 | 156,719 |
| Radiology | | |
| Salaries and wages | 205,855 | 202,499 |
| Supplies and other expenses | 647,524 | 678,165 |
| | <u>853,379</u> | <u>880,664</u> |
| Laboratory | | |
| Salaries and wages | 271,954 | 270,119 |
| Supplies and other expenses | 347,380 | 329,087 |
| | <u>619,334</u> | <u>599,206</u> |
| Respiratory Therapy | | |
| Salaries and wages | 4,851 | 7,641 |
| Supplies and other expenses | 29,234 | 34,777 |
| | <u>34,085</u> | <u>42,418</u> |
| Physical Therapy | | |
| Salaries and wages | 99,229 | 77,563 |
| Supplies and other expenses | 504,619 | 444,667 |
| | <u>603,848</u> | <u>522,230</u> |
| Speech Therapy | | |
| Supplies and other expenses | 17,439 | 18,889 |

Franklin General Hospital
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|-----------|-----------|
| Occupational Therapy | | |
| Supplies and other expenses | \$ 69,001 | \$ 65,865 |
| Wound Therapy | | |
| Supplies and other expenses | 10,444 | 9,794 |
| Electrocardiology | | |
| Salaries and wages | 7,072 | 6,650 |
| Supplies and other expenses | 5,901 | 5,873 |
| | 12,973 | 12,523 |
| Pharmacy | | |
| Supplies and other expenses | 377,807 | 348,159 |
| Central Supply | | |
| Supplies and other expenses | 128,341 | 172,341 |
| Central Sterile | | |
| Salaries and wages | 11,046 | 14,103 |
| Supplies and other expenses | 2,285 | 7,072 |
| | 13,331 | 21,175 |
| Cardiac Rehabilitation | | |
| Salaries and wages | 42,599 | 41,934 |
| Supplies and other expenses | 8,012 | 9,011 |
| | 50,611 | 50,945 |
| Infusion Therapy | | |
| Salaries and wages | 14,507 | 6,740 |
| Supplies and other expenses | 540 | 457 |
| | 15,047 | 7,197 |
| Clinics | | |
| Salaries and wages | 1,553,333 | 1,425,889 |
| Supplies and other expenses | 1,253,024 | 1,174,428 |
| | 2,806,357 | 2,600,317 |
| Emergency Services | | |
| Salaries and wages | 110,098 | 92,564 |
| Supplies and other expenses | 389,144 | 363,071 |
| | 499,242 | 455,635 |

Franklin General Hospital
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|----------------|----------------|
| Ambulance | | |
| Salaries and wages | \$ 180,872 | \$ 150,480 |
| Supplies and other expenses | 56,241 | 58,092 |
| | <u>237,113</u> | <u>208,572</u> |
| Social Services | | |
| Salaries and wages | 49,056 | 45,838 |
| Supplies and other expenses | 845 | 391 |
| | <u>49,901</u> | <u>46,229</u> |
| Medical Records | | |
| Salaries and wages | 142,003 | 133,145 |
| Supplies and other expenses | 44,954 | 34,823 |
| | <u>186,957</u> | <u>167,968</u> |
| Dietary | | |
| Salaries and wages | 272,628 | 270,081 |
| Supplies and other expenses | 208,094 | 213,383 |
| | <u>480,722</u> | <u>483,464</u> |
| Repairs and Maintenance | | |
| Supplies and other expenses | 101,024 | 111,461 |
| Operation of Plant | | |
| Salaries and wages | 146,427 | 141,103 |
| Supplies and other expenses | 218,538 | 224,424 |
| | <u>364,965</u> | <u>365,527</u> |
| Housekeeping | | |
| Salaries and wages | 140,291 | 130,066 |
| Supplies and other expenses | 26,312 | 23,246 |
| | <u>166,603</u> | <u>153,312</u> |
| Laundry and Linen | | |
| Salaries and wages | 17,342 | 19,775 |
| Supplies and other expenses | 110,310 | 106,321 |
| | <u>127,652</u> | <u>126,096</u> |
| Marketing | | |
| Salaries and wages | 16,309 | 19,055 |
| Supplies and other expenses | 21,681 | 21,037 |
| | <u>37,990</u> | <u>40,092</u> |

Franklin General Hospital
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-----------------------------|----------------------|----------------------|
| Purchasing | | |
| Salaries and wages | \$ 45,130 | \$ 49,149 |
| Supplies and other expenses | <u>1,360</u> | <u>5,464</u> |
| | <u>46,490</u> | <u>54,613</u> |
| Patient Education | | |
| Salaries and wages | 25,323 | 16,251 |
| Supplies and other expenses | <u>7,705</u> | <u>1,851</u> |
| | <u>33,028</u> | <u>18,102</u> |
| Specialty Clinic | | |
| Salaries and wages | <u>2,508</u> | <u>3,106</u> |
| Community Education | | |
| Salaries and wages | - | 45 |
| Supplies and other expenses | <u>72</u> | <u>3</u> |
| | <u>72</u> | <u>48</u> |
| Administrative Services | | |
| Salaries and wages | 425,440 | 396,056 |
| Supplies and other expenses | <u>1,281,876</u> | <u>1,187,640</u> |
| | <u>1,707,316</u> | <u>1,583,696</u> |
| Unassigned Expenses | | |
| Depreciation | 1,344,407 | 1,026,637 |
| Interest | 184,594 | 111,000 |
| Employee benefits | <u>1,453,869</u> | <u>1,354,343</u> |
| | <u>2,982,870</u> | <u>2,491,980</u> |
| Total Operating Expenses | <u>\$ 15,371,320</u> | <u>\$ 14,222,799</u> |

Franklin General Hospital
Schedules of Patient and Resident Receivables, Allowance for Doubtful Accounts,
and Collection Statistics (Unaudited)
Years Ended June 30, 2011 and 2010

| Analysis of Aging <u>Days Since Discharge</u> | 2011 | | 2010 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Amount | Percent to Total | Amount | Percent to Total |
| 30 Days or Less | \$ 1,597,685 | 55.78% | \$ 1,635,340 | 57.05% |
| 31 to 60 Days | 302,128 | 10.55% | 375,772 | 13.11% |
| 61 to 90 Days | 165,118 | 5.76% | 162,236 | 5.66% |
| 91 Days and Over | 799,623 | 27.91% | 693,026 | 24.18% |
| | <u>2,864,554</u> | <u>100.00%</u> | <u>2,866,374</u> | <u>100.00%</u> |
| Less: Allowance for Doubtful Accounts | 506,487 | | 420,074 | |
| Allowance for Contractual Adjustments | <u>668,144</u> | | <u>739,121</u> | |
| Net | <u>\$ 1,689,923</u> | | <u>\$ 1,707,179</u> | |

**Analysis of Allowance for Doubtful Accounts
Years Ended June 30, 2011 and 2010**

| | 2011 | 2010 |
|-----------------------------------|-------------------|-------------------|
| Beginning Balance | \$ 420,074 | \$ 220,000 |
| Add: Provision for Bad Debts | 897,259 | 867,517 |
| Recoveries Previously Written Off | 155,024 | 151,194 |
| | <u>1,052,283</u> | <u>1,018,711</u> |
| Less: Accounts Written Off | <u>(965,870)</u> | <u>(818,637)</u> |
| Ending Balance | <u>\$ 506,487</u> | <u>\$ 420,074</u> |

Collection Statistics

| | | |
|---|--------------|--------------|
| Net Accounts Receivable - Patients and Residents | \$ 1,689,923 | \$ 1,707,179 |
| Number of Days Charges Outstanding (1) | 40 | 43 |
| Uncollectible Accounts (2) | \$ 985,951 | \$ 957,010 |
| Percentage of Uncollectible Accounts to Total Charges | 4.3% | 4.4% |

(1) Based on average daily net patient and resident service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

Franklin General Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|------------------------|------------|------------|
| Supplies | | |
| Pharmacy | \$ 102,000 | \$ 101,935 |
| Laboratory | 38,189 | 52,279 |
| Medical/surgical | 26,268 | 27,287 |
| Total supplies | \$ 166,457 | \$ 181,501 |
| Prepaid Expenses | | |
| Insurance | \$ 71,734 | \$ 59,305 |
| Dues and other | 59,118 | 59,205 |
| Rent | 4,200 | 4,200 |
| Total prepaid expenses | \$ 135,052 | \$ 122,710 |

Franklin General Hospital
Schedules of Insurance in Force (Unaudited)
Year Ended June 30, 2011

| Company and Policy Number | Description | Amount of Coverage | Annual Premium | Expiration Date |
|------------------------------|--------------------------------------|-----------------------|-------------------|--------------------|
| Federal Insurance | | | | |
| Company | | | | |
| 3579-39-61 WUC | Commercial Property | \$ 17,371,953 | \$ 34,190 | 7/1/2011 |
| (09)7498-06-65 | Auto | \$ 1,000,000 | \$ 8,657 | 7/1/2011 |
| 6802-8577 | D&O Liability | \$ 1,000,000 | \$ 8,635 | 7/1/2011 |
| 3579-39-61 WUC | Add Builder's Risk | | \$ 10,140 | 7/1/2011 |
| IMT Insurance | | | | |
| FD1219 | Fidelity Bond | \$ 100,000 | \$ 615 | 7/1/2011 |
| Employers Mutual | | | | |
| T231260 | Resident Fund Bond | \$ 5,000 | \$ 100 | 7/1/2011 |
| MHA Insurance | | | | |
| 01-IA10018 | Institutional Professional Liability | | \$ 29,307 | 6/30/2011 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 3,000,000 | | |
| | Physicians Liability | | \$ 16,940 | 6/30/2011 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 3,000,000 | | |
| | Comm Gen Liability | | \$ 2,608 | 6/30/2011 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 3,000,000 | | |
| | Emp Benefits Liability | | \$ 1,500 | 6/30/2011 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 3,000,000 | | |
| | HealthCare Umb Liability | | \$ 6,563 | 6/30/2011 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 1,000,000 | | |
| Farm Bureau Insurance | | | | |
| 7805513 | Workers Compensation & Liability | | \$ 94,692 | 4/4/2012 |
| | Each occurrence limit | \$ 1,000,000 | | |
| | General aggregate | \$ 1,000,000 | | |

Franklin General Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|------------------------|---------------|---------------|
| Patient Days | | |
| Acute | 655 | 848 |
| Swing-bed | 1,367 | 1,013 |
| Nursing facility | 18,092 | 18,087 |
| Totals | <u>20,114</u> | <u>19,948</u> |
| Admissions | | |
| Acute | 188 | 220 |
| Swing-bed | 102 | 88 |
| Nursing facility | 31 | 40 |
| Totals | <u>321</u> | <u>348</u> |
| Discharges | | |
| Acute | 187 | 218 |
| Swing-bed | 101 | 90 |
| Nursing facility | 31 | 35 |
| Totals | <u>319</u> | <u>343</u> |
| Average Length of Stay | | |
| Acute | 3.50 | 3.89 |
| Swing-bed | 13.53 | 11.26 |
| Beds | | |
| Acute | 25 | 25 |
| Nursing facility | 52 | 52 |
| Occupancy Percentage | | |
| Acute and swing-bed | 22.2% | 20.4% |
| Nursing facility | 95.3% | 95.3% |
| Outpatient Visits | <u>15,063</u> | <u>14,030</u> |
| ER Visits | <u>2,441</u> | <u>2,491</u> |
| Clinic Visits | | |
| Hampton | 25,785 | 25,427 |
| Dows | 671 | 679 |
| Latimer | 647 | 640 |
| Dumont | 712 | 766 |
| Totals | <u>27,815</u> | <u>27,512</u> |



**Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the accompanying balance sheet of Franklin General Hospital and its discretely presented component unit, Franklin General Hospital Foundation, as of June 30, 2011, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the year then ended, and have issued our report thereon dated October 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Franklin General Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Franklin General Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Franklin General Hospital and other parties to whom Franklin General Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
October 18, 2011

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Franklin General Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part I: Findings Related to the Financial Statements: (continued)

I-B-11 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Franklin General Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 **Certified Budget** – Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted.

- II-B-11 **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- II-C-11 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

- II-D-11 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

- II-E-11 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

- II-F-11 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.

- II-G-11 **Publication of Bills Allowed and Salaries** – Chapter 347.13(11) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Hospital published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.

- II-H-11 **Chapter 28E Organization** – The Hospital has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has contracted for an audit under the provisions of Chapter 28E.



The Board of Trustees
Franklin General Hospital
Hampton, Iowa

We have audited the financial statements of Franklin General Hospital for the year ended June 30, 2011, and have issued our report thereon dated October 18, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Franklin General Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient and resident receivables, amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient and Resident Receivables – Management's estimate of the collectibility of patient and resident receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient and resident receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following significant adjustments detected as a result of audit procedures were corrected by management:

| | |
|---|-------------|
| To Adjust Interest Expense for Components Capitalized During the Year Ended June 30, 2011 | \$ (48,423) |
| To Adjust Estimated Third-Party Payor Settlements at June 30, 2011 | 185,237 |

The net effect of the adjustments was to increase net assets by \$136,814.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 18, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospital’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Following are additional comments for informational purposes only:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in the financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management of Franklin General Hospital and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
October 18, 2011

xc: Mr. Kim Price, CEO